

**STATEMENT OF TOM SLONAKER
NOMINEE FOR THE POSITION OF
SPECIAL TRUSTEE FOR AMERICAN INDIANS
U.S. DEPARTMENT OF THE INTERIOR
BEFORE THE SENATE COMMITTEE ON INDIAN AFFAIRS
MARCH 22,2000**

Mr. Chairman and members of the Committee, I am Tom Slonaker. My wife and I are residents of Arizona. I am very pleased to appear before you, and very much appreciate your effort to provide for this hearing so soon after I received the President's nomination to be the Special Trustee for American Indians as established by the *American Indian Trust Fund Reform Act*.

I would also like to thank Senator Kyl for his very kind introduction.

I became aware of this opportunity when I was contacted by an executive search firm. I feel very honored that they contacted me and that I eventually earned the recommendation of the Department of Interior and the nomination by the President. It is yet another honor to appear here today.

In the short time since my nomination, I've been exposed to several general aspects of the Department's trust reform efforts. Obviously, it will take some time before I've properly analyzed the myriad of issues and initiatives involved in Indian Trust reform, and then to form solid views and opinions on these matters. However, today I would like to comment on what I've seen so far and also offer the Committee my credentials for its consideration.

As you know, the individual Indians and Indian Tribes are the beneficiaries of trust assets for which the U.S. Government has a fiduciary responsibility for recording, reporting and managing. Congress has designated the Secretary of the Interior as the primary trustee for these assets. The *1994 American Indian Trust Fund Reform Act* established the position of a Special Trustee, reporting directly to the Secretary of the Interior, to oversee and direct all aspects of trust funds management reform within the Bureau of Indian Affairs (BIA), the Bureau of Land Management and the Minerals Management Service including the coordination of policies, practices, systems development, technical assistance, training and recruitment of Indians in the management of trust funds, and the regular reporting to the tribal and individual Indian account holders.

The 1994 Act specifically requires the appointment of an individual as Special Trustee who possesses the ability and experience in the general management of large entities along with a knowledge of trust fund management, management of financial institutions, and the investment of large sums of money.

I see the position of the Special Trustee as a very unique leadership and managerial challenge. It also represents a major responsibility to our clients, the American Indians, as well as to our nation itself. For someone who has spent his entire career in the private sector, this is a surprise privilege for me and a chance for me to provide a very significant management service to both our Indian beneficiaries and to our country.

I won't reiterate the litany of the General Accounting Office, the Office of Inspector General, and Congressional reports that go back decades and cite historic and numerous problems with the

accountability and management of Indian trust funds and assets. These problems are well documented and well-known.

The Department has responded to these problems with a multi-year, multi-agency effort that is detailed, for the most part, in the updated High Level Implementation Plan (HLIP) and supplementary plans presented to the U.S. District Court for the District of Columbia on March 1, 2000. Together, these plans outline the scope of a reform effort that involves the coordination and attention of numerous federal departments and bureaus, as well as Indian Tribes and individual account holders.

First, these plans detail the new automated systems put in place to better manage trust funds and trust assets. The Trust Fund Accounting System, or TFAS, is a commercial, state-of-the-art system to track financial information such as account investments and disbursements. I am familiar with this system and its vendor, SEI. The Trust Asset and Accounting Management System, TAAMS, is also an automated system to track master lease, billing and accounts receivable, and land title functions. My experience is that all such systems, while they have become pretty standardized products, need to be adapted to the environment of the user, and that such systems also must interface well with other systems. These should not be insurmountable challenges for us.

The implementation of these new computer systems is complemented by a number of activities to improve the quality of trust fund information, as well as the underlying trust assets. Data cleanup activities within the Office of the Special Trustee and BIA are ongoing; improved land management activities, including a new process to perform timely land appraisals, have been put into place; and the Department is working to address the best means by which to respond to the backlog of probates. My experience is in managing such activities and fostering a team approach, while monitoring progress for the Secretary and Congress.

Work also is underway to ensure the continued progress and long-term success of these reform efforts. Toward this end, a multi-agency effort is underway to coordinate trust fund policies and procedures in order to ensure consistency in the implementation of Departmental trust functions. In addition, a new system for records management has been created, systems and non-systems training will be provided for all trust fund employees, and new internal control mechanisms have been put in place.

This whole effort is not unlike that which is required to deliver services to clients in a large bank trust department having numerous branch locations often in different states, something with which I'm familiar. With good leadership, a collegial effort and good systems, the effort will succeed.

While the HLIP represents the Department's blueprint for trust reform activities, it is by no means inclusive of all the Department's reform efforts. Today, the Committee is marking up *S.1586, the Indian Lands Consolidation Act Amendments of 2000*. As you know, the Department has been working closely with the Committee to find a solution to the continuing problem of fractionated lands, a practice that undermines the vitality of allottee-owned land and severely complicates the government's management of trust assets and resources. This legislation follows a successful pilot program in the Midwest Region, and I know that the Department looks forward to swift action by the Senate and House of Representatives.

Additionally, Title II of the 1994 Reform Act authorizes tribes to withdraw funds from the trusts. At some point soon we need to address that. I've also had considerable experience in the investment markets, and I suspect that we need to think soon, too, about the eligible investments for these trust accounts. The trusts need to have the appropriate investment opportunities available to them to ensure that we can offset the effect of inflation and grow the assets in a prudent manner.

Finally, I am aware of the on-going *Cobell v. Babbitt* litigation, and of the Department's responsibilities to the Court that have developed from this litigation. Specifically, I look forward to working with the Court to provide Quarterly Reports on actions taken to correct the areas in which the Court found the Department in breach of its trust responsibilities to individual Indians. I understand that initiatives and procedures have been developed to address these breaches, and, if confirmed, I would look forward to the responsibility of their oversight and coordination with current trust related functions.

I have spent 36 years involved with the management of investment assets, principally the investment of funds for large financial institutions and their institutional and individual clients and beneficiaries. During my career I became increasingly more involved with client relationships and interfacing with individual clients including beneficiaries. That aspect of my experience is important for the task of the Special Trustee.

I would characterize the decentralized nature of DOI's management of the Indian trust fund as a matrix management challenge in which groups of people, often in distant locations, are accountable to more than one line manager. I have spent much of my career managing people and organizations and responding to such a challenge. After the early years of my career, I have had large staffs to manage. In the latter years of my career my challenge was to consolidate and direct trust and investment processes which included groups of people, often in remote locations, who did not report to me, or who, if they did, were often accountable to other line managers as well. This type of experience matches well with the present challenges of the Special Trustee.

I point this out because I believe the important task at hand for the Special Trustee is to lead all of the relevant parts of the Department of the Interior in an effective and collegial effort to expedite the execution of the Department's High Level Implementation Plan. This Plan, as you know, is designed to deal with long term solutions to the accurate record keeping of Indian trust assets, and requires the establishment of a seamless interface of record keeping systems and the training of employees. Some parts of the Interior Department which are crucial to the successful management of the trust accounts do not report to the Special Trustee, and it is the Trustee's task, not only to monitor the process, but to spur a cooperative effort.

I believe my professional experience, which I'll outline below, amply prepares me for the role of Special Trustee. To summarize my background: After graduating from Williams College, I spent a year with Westinghouse Electric and then a brief period with the Army Reserves. Following that, I earned my MBA in 1960 at Harvard and then Joined the Mellon Bank. When I left there in 1983, I was the senior vice president responsible for the Bank's own security portfolio amounting to about \$12 billion, plus all of the Bank's capital markets activities. I then joined Federated Investors, a large manager of mutual funds for institutional clients. Those clients were primarily bank trust departments using our mutual funds and money funds in lieu of creating their own common and collective trust funds. I was a senior vice president there with investment responsibility for managing funds which grew during my tenure to about \$36 billion.

I was then asked in 1993 to join the First Interstate Bancorp, one of the largest bank holding companies and a multi-state banking and trust organization located in many states of the Western United States. At First Interstate (now Wells Fargo), I became an executive vice president and chief investment officer with investment responsibility for approximately \$27 billion of trust assets.

In recent years, I have been serving on numerous boards including that of the outside, independent director of the Federal Farm Credit Funding Corporation and a member the Farm Credit system-wide Audit Committee. Among non-profit boards, I am a trustee and chair of the investment committee of an eastern college and have been the treasurer and director of the Phoenix Center for the Performing Arts.

As to the role of the Special Trustee, the implementation of the Plan and the operations supporting the trusts must not only have leadership, but have accountability and integrity as well. Moreover, I believe it is important that the HLIP must be carefully implemented and rigorously and regularly reviewed for progress and improvements.

A trustee's obligation ultimately is to his or her clients. The clients are often, as in this case, beneficiaries whose assets must be protected and prudently invested by the trustee. An important obligation for the trustee is to understand the needs of the client as well as the legal obligations to the client. One important aspect of a trustee's duties, in my experience, is to get out and visit and dialogue with those clients. This is a part of the Special Trustee's job upon which I place a high priority and to which I look forward.

I had the opportunity to meet recently with several members of the board of the Intertribal Monitoring Association and its staff. This was an opportunity to learn of their concerns first hand and to get to know them better. During the search process, I also had an opportunity to spend time with a member of the Special Trustee's Advisory Board. If confirmed, I look forward to regular meetings so that I may gain the perspectives and expertise of the Advisory Board and the ITMA.

In closing, let me say that the leadership, independence, accountability, integrity, and energy of the Special Trustee are crucial. Above all, a trust fiduciary, such as the Special Trustee, recognizes the duty that he or she has to the ultimate customers, the beneficiaries, who in this case are the American Indians.

I look forward to the challenge before me, and I hope that the Senate will see fit to confirm me as the Special Trustee for American Indians. I look forward to working with this Committee if I am confirmed.

Thank you for your consideration, and thank you again for providing the opportunity for this hearing so quickly after my nomination.

I would be happy to respond to your questions.